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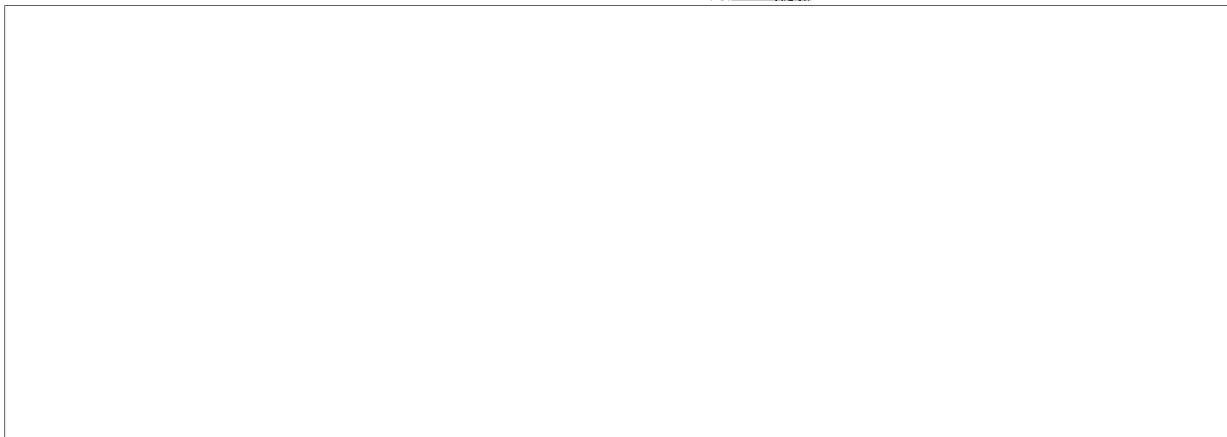
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Further Reductions in Soviet Retail Prices

Summary

The Soviet leadership has announced new price reductions on various consumer goods, the fourth such move since April 1983. Official commentary describes the price cuts as part of a program to raise living standards and improve the lot of the consumer. It seems, however, that the primary objective of the lower prices is to help reduce stocks of slow-moving goods. Soviet consumer price policy allows for increases as well as reductions, but there have been no officially announced price boosts since February 1983. In contrast to the emphasis in the early days of the Andropov regime on better balance between supply and demand, recent official commentary has stressed provision of basic goods at low prices.

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CONFIDENTIAL**Recent Price Reductions**

1. The Soviet Politburo recently announced the fourth reduction in prices of consumer goods in 18 months. The latest cuts, effective 1 September and ranging from 17 to 30 percent, mainly affect children's clothing, synthetic fabrics, and certain types of medicine. The Soviets claim that the move will save consumers 2.2 billion rubles (about \$2.5 billion at the current official exchange rate) a year. This is somewhat less than 1 percent of total annual sales in state retail outlets. The items affected fall largely within the category of "essential goods," defined as those that should have relatively low and stable prices to ensure equal access by all strata of the population.

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2. Many of these "essentials," however, are goods that Soviet consumers in the past have found undesirable, such as clothing and fabrics made from artificial fibers and children's clothing trimmed with artificial fur. Thus, the Soviets appear to have slashed prices primarily to help reduce stocks of slow-moving goods. This was true of many past reductions, including those of April, September, and December 1983. As was the case with the three previous rounds of cuts, however, the Soviet leadership proclaimed its action with considerable fanfare as part of a program to raise living standards and improve the lot of the consumer.

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3. The price reductions took effect concurrently with seasonal clearance sales that reduced prices up to 40 percent on leftover summer items. Biannual seasonal sales--from February through April on fall and winter goods and from August through October on spring and summer items--were institutionalized in December 1983 by decree of the USSR Council of Ministers. Previous reporting indicated that the spring sale this year did not meet expectations and optimistically estimated that the fall sale would save consumers 500 million rubles. Soviet officials maintain that savings to consumers in the year and a half since April 1983 from three seasonal sales, periodic lowering of elevated prices imposed on new products to cover initially high production costs, and general price reductions total more than 9 billion rubles. Of this amount 5.6 billion rubles stems from the three 1983 price cuts.

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Subsidization of Basic Consumers Goods

4. Official comment on the latest reductions included an additional element intended to win increased favor for the Soviet regime among consumers--a strong emphasis on the cost to the state in budget subsidies for maintaining low prices on "socially important" goods. The point is to tout the benefits of the Soviet method of price-setting as a social policy over price-setting for profit as practiced in market economies.

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5. Officials of the USSR State Committee for Prices noted that the Soviet budget allocates annually one billion rubles to support "cut-rate" retail prices on children's goods and that the latest price reductions will necessitate a "considerable" increase in this subsidy. Other recent official commentary has discussed the general system of state subsidies for maintaining low-cost housing and stable prices on basic foodstuffs and non-food items, pointing out that purchase prices on meat and dairy products represent only about half the actual production costs to the state. Soviet officials and publications frequently boast that bread and bread products prices have not changed since 1954, and meat and dairy prices remain at the 1962 level. The head of the State Price Committee, N. Glushkov, recently stated that more than 40 billion rubles were required in 1983 to cover the difference between cost of producing and marketing meat and dairy products and the cost to consumers at retail. The current price cuts, however, would affect the total subsidy bill only slightly.

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Soviet Policy on Pricing of Consumers Goods

6. Glushkov, who has headed the Price Committee since 1975 and is the regime's chief spokesman on price questions, outlined the basic elements of Soviet retail price policy in a July press interview. He listed three broad categories of consumer goods; the category in which an item falls largely determines whether and in what direction the price of that item will change. The categories include

- essential items--including most foods, standard clothing and footwear, children's items, and medicines--on which prices should remain low and stable. (These goods make up the bulk of retail sales and of consumers' budgets.)
- non-essential items such as crystal, jewelry, rugs, automobiles, gasoline, and high fashion items on which prices could be raised to limit demand. (Wine, vodka, and tobacco were also placed in this pricing category.)
- goods in excess supply such as synthetic clothing, watches, television sets, refrigerators, and radio-electronic equipment on which prices could be reduced to move overstocked inventories.

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7. As the Glushkov statement shows, official policy allows for increases as well as decreases in prices. In practice, however, there have been no official price increases for more than a year and a half. Following a call by Andropov early in his tenure as General Secretary to remove "distortions and

* This amount is equivalent to two-fifths of national income originating in agriculture in 1980.

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incongruities" in prices--code language for raising prices to better balance supply and demand--prices on a variety of consumer goods and services were boosted in February 1983. The Soviets estimated that the hikes cost the Soviet public 4 billion rubles a year. However, as the subsequent record shows, Andropov and his successors backed off from his campaign for greater market equilibrium. Glushkov, for instance, in a January 1984 journal article, assailed the idea of using prices as the "main instrument" for equilibrating supply and demand in Soviet consumer markets. [REDACTED]

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8. Nevertheless, there is still leeway for upward as well as downward movement in state prices in the consumer sector. As just noted, prices on "luxuries" as well as on alcoholic beverages and tobacco may be raised to limit demand. In addition, the use of temporary high prices to encourage production of new and better quality goods creates a loophole for raising prices on existing goods. Historically, Soviet sellers have justified price hikes by representing old goods as new ones through inconsequential changes in their contents or packaging. [REDACTED]

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